

**change  
is the only  
constant**



**Annual Report  
Fiscal Year 2004**

# CEO's Message



***Iowa Lottery Authority  
CEO Dr. Edward Stanek***

We experience change every day—whether it's as simple as a new detour during road construction or as profound as a new addition to the family. Change is a necessary daily occurrence at the Iowa Lottery, just as it is anywhere else, and that was especially true during fiscal year 2004.

We started the fiscal year fresh on July 1, 2003, as the new Iowa Lottery Authority. Legislation signed into law in May 2003 gave the lottery the chance to become a corporate-model enterprise, which means we now have greater flexibility in our day-to-day operating decisions with the goal of producing greater profits for the state. Cooperation between the lottery, the Legislature and the Governor on this legislation allowed the lottery to flourish in FY 2004—increasing the flow of revenue to state programs by more than 16 percent. We sent more than \$55.7 million in profits to the state during the last fiscal year. In this case, change definitely is good for the state!

## **Iowa Continues To Be A Pioneer**

The Iowa Lottery continued to be a pioneer in the lottery industry in FY 2004—this time with its TouchPlay machines. The Iowa Lottery is the first in the nation to offer these machines. TouchPlay machines offer more entertainment for the player with lights and sound as they dispense tickets. In May of 2003, the lottery began installing TouchPlay machines as a test at some of the Iowa businesses already selling traditional pull-tab tickets. Positive performance and reaction to these test machines spurred the lottery to pursue placing machines statewide during FY 2004. We hope their addition to our product line will further increase our ability to raise money for state programs.

The lottery also changed its lotto game line-up in FY 2004, adding Pick 4. In the new game, players pick four numbers from 0 through 9 and have the chance to win in two drawings Monday through Saturday and one on Sunday. Sales of the new Pick 4 lotto game and its counterpart, Pick 3, accounted for almost \$8 million during the fiscal year. Pick 3 sales jumped more than 5 percent for the year.

The Iowa Lottery's perennially strong instant/scratch tickets and Powerball products again held the top spots for sales in fiscal year 2004. Instant/scratch sales increased by 12 percent, while Powerball sales jumped more than 14 percent. These products are our players' favorites and we continue to strive to meet their changing needs and tastes.

## **Market Test Presents Prospects For Revenue Generation**

Looking toward the future, in fiscal year 2005, the lottery will test market an electronic game card that is the first of its kind in the world. The card, which is about the size of a driver's license, will have 80 plays and the chance to win up to \$300. Quarter Play aptly describes the card, as each play on it costs 25 cents. We believe our players will embrace this new technology and we're excited by its prospects for revenue generation.

It seems each year here at the lottery is more exciting than the last, and now that we're the Iowa Lottery Authority, the excitement (and not to mention the exemplary revenue production) continues.



# Iowa Lottery Board Chairman's Message



**Michael McCoy,**  
*West Des Moines*

Another busy year for the Iowa Lottery Board has passed! This fiscal year was full of excitement and change.

Board members were enthusiastic about the proposed electronic game card and TouchPlay machines. Both products are groundbreaking for the lottery industry and show potential for increased revenue production for the state. The Iowa Lottery was the first in the United States to market TouchPlay machines and will be the first lottery in the world to test market the electronic game card next fiscal year.

Other issues addressed during fiscal year 2004 were the purchase of instant ticket and pull-tab ticket vending machines, several procedure and rules changes due the implementation of the Iowa Lottery Authority, and examination of options for the location of the lottery's headquarters in Des Moines.

I'm pleased to have been a part of the excitement this last fiscal year at the Iowa Lottery and join the other board members in looking forward to another year!

## Iowa Lottery Board



**Elaine Baxter,**  
*Burlington*



**Bill Brosnahan,**  
*Dubuque*



**Tim Clausen,**  
*Sioux City*



**Mary Junge,**  
*Cedar Rapids*



**Iowa Treasurer**  
**Michael Fitzgerald,**  
*West Des Moines*  
*(ex officio board member)*



# TouchPlay Adds Video and Sound

The Iowa Lottery Authority, in partnership with amusement operators from across the state, began statewide introduction of TouchPlay machines in the last two months of the fiscal year.

This followed a successful market test of the technology, which added video and sound to the traditional vending machine. By the end of June, about 200 TouchPlay machines had been installed at businesses around the state. For the year, the machines produced more than \$1.5 million in sales.

**“Variety, convenience and fun have always equaled success for the Iowa Lottery. The Lottery Authority maintained that focus while making strategic business changes internally. We’re thrilled that the end result means greater resources for the programs that benefit all Iowans.”**  
—Ed Stanek



*Iowa Lottery TouchPlay machines were distributed statewide in the last two months of the fiscal year. Two types of machines can be found in Iowa—Irish Gold machines, left, are manufactured by Diamond Game of California and the Touch Tab machines, right, are manufactured by Nebraska’s Oasis Gaming.*



# 'Quarter Play' Test Launch Planned



An electronic version of the traditional instant-scratch game will make its world debut when an Iowa market test of the battery-powered product begins in early October 2004.

The new product, known as the electronic game card, will be marketed under the name “Quarter Play,” which aptly describes it—with 80 plays on a card sold for \$20, each play costs 25 cents.

The card will be test launched at 132 Iowa Lottery retailers in a limited area of eastern Iowa that includes Dubuque, Cedar Falls/Waterloo and Cedar Rapids.

Each electronic game card, about the size of a driver’s license, is battery powered and loaded with random plays. Players activate the card by pulling off a plastic tab on the back, then push the “play” button on the front to get started. Each play loaded onto the card is the equivalent of an individual scratch ticket. But in the case of the game card, an electronic play replaces the traditional scratch area on a paper ticket. Three small LED screens on the front of the game card display the numbers in a particular play and show whether that play has won a prize.

Players accumulate points, each having a value of 25 cents, by matching three like numbers or getting any “7” as they advance through the 80 plays. At the conclusion of all the plays, the game card displays the total points accumulated. Each card in the market test will offer a guaranteed \$5 prize and a top prize of \$300.

“We’re excited to offer our players more entertainment through this new product,” said CEO Ed Stanek. “We believe the electronic game card represents an important innovation in the evolution of lottery products, particularly in terms of extended playing time.”

Initial discussions of the concept started in the fall of 2002 and led to testing and development, including focus groups with players and retailers.

**“The game cards’ development can be compared to evolution in any industry: Computers that once filled entire rooms and had little processing capacity today pack enormous amounts of information and capability into tiny microchips . . .”**  
—Iowa Lottery press release



# Pick 4, Pick 3 Midday Drawing Added to Lotto Game Lineup

The increasing popularity of Iowa's Pick 3 game led to the decision to add a Pick 4 game to the lottery's lineup of lotto games. The lottery also offered players the chance to play a midday drawing in the existing Pick 3 game.

Pick 4's format already was familiar to Iowa Lottery players since they've been able to play the Pick 3 game since 1998. Both changes became effective Sept. 21, 2003.

Hot sales of Pick 3 spurred the changes. In fiscal year 2003, sales in Pick 3 made the biggest percentage increase for the lottery, jumping more than 21 percent to about \$6 million. In fiscal year 2004, Pick 3 sales jumped another 5 percent.

"Both Pick 3 and Pick 4 offer easier odds and several ways to choose your numbers, both features our players appreciate and enjoy," CEO Ed Stanek said.

Players are able to choose nine different kinds of plays in Pick 3 and 15 kinds of plays in Pick 4 for drawings twice a day Monday through Saturday and in the evenings on Sunday. Midday drawings are at 12:40 p.m. with evening drawings at 9:20 p.m. Both games feature new "front pair" and "back pair" options, meaning that players can win prizes by matching the first two or last two numbers drawn.

Pick 4 replaced the Freeplay Replay game, which ended Sept. 20, 2003.

**"Pick 3 has consistently created dozens of winners in Iowa every day and that winning message has built the game's popularity. More drawings in Pick 3 and the introduction of Pick 4 give players more of what they want—opportunities to play and win!" —Ed Stanek**



**More fun 4 all.**



# Hot Lotto Continues to Burn Brightly in Iowa



***Todd Brobston of Fort Madison, right, and his wife Colleen accept a check for \$1.3 million from Lottery CEO Ed Stanek.***

Two more lucky Iowans won Hot Lotto jackpots in fiscal year 2004 as Iowa carried on its winning tradition in the game.

Iowans now have won four Hot Lotto jackpots since the game began in April 2002, and interest in the game continues to grow. Hot Lotto sales for fiscal year 2004 sizzled, jumping more than 29 percent.

## **Fort Madison Man Wins \$1.3 Million**

Todd Brobston of Fort Madison won the \$1.3 million jackpot in the Nov. 1 Hot Lotto drawing, but did not know he was the big winner until he stopped for donuts on his way to work. The clerk working at the store suspected Brobston was the winner before he even scanned his ticket.

“He said, ‘You’re the one!’ And I said, ‘OK, so I won \$1, just give me my \$1 and let me get out of here,’” Brobston said. “He said, ‘No, you just won \$1.3 million!’ I said, ‘Just quit messing with me, I have to get to work!’ But he was serious and about that time, that’s when my knees gave out, I started to get shaky. It was pretty amazing.”

Brobston, 40, works for the street department in Fort Madison. He planned to buy a new vehicle with his winnings, but beyond that, the money will be used to pay for college for his three children, for retirement and to share with family.

## **\$1.65 Million Jackpot Goes to Policeman**

Danny Good, a 27-year veteran of the Des Moines Police Department, became the fourth Iowa Lottery player to win a Hot Lotto jackpot.

Good said he’ll take care of his family’s needs as well as his own. He said they’ll upgrade his mom’s house and car and put a little cash in the bank. He’ll also help out his brother and sister.

Good won the \$1.65 million jackpot prize in the Dec. 20 Hot Lotto drawing.

“I’ll maybe buy some property—buy a little piece of land and a house. I’ll just take it easy,” he said.



***Danny Good of Des Moines speaks with the media after his \$1.65 million Hot Lotto win.***

# Iowa Lottery Authority is Born

Fiscal year 2004 marked the first year of operations for the Iowa Lottery Authority, which was created with the passage of legislation that reinvented the lottery as a public enterprise based on a business model. The legislation, signed into law in May 2003, gave the lottery greater flexibility in its day-to-day operating decisions, with the goal of producing greater profits to the state. The lottery more than succeeded in achieving that goal, surpassing the proceeds target of \$54.8 million that was established in the legislation.

The proof of the lottery's renewed business focus is in its results.

"The result is greater productivity," CEO Ed Stanek said. "Cooperation between the lottery, the Legislature and the Governor has generated even greater success than in the past for the benefit of all Iowans."

Iowa Lottery revenues are deposited in the state general fund, where they are used to pay for a variety of programs. Some of the programs that receive money from the general fund include education, natural resources, health and family services and public safety.

Under the new law, the lottery's board has begun approving the enterprise's budget using best-business judgment, allowing the lottery to accelerate product development. That development is focused on entertainment value.

Under the traditional state budget-setting procedure, the lottery had to delay some strategic long-term planning while it waited for the completion of the legislative appropriations process, which could span months.

"In waiting, we lost months of market time and we may have lost the entire opportunity to even introduce a product," Stanek said. "Some projects are time sensitive, others are event sensitive and you can't afford to wait."

**"The result is greater productivity. Cooperation between the lottery, the Legislature and the Governor has generated even greater success than in the past for the benefit of all Iowans."**  
—Ed Stanek



*The Iowa Lottery Authority is headquartered in Des Moines at 1515 Grand Ave.*



# Profits Up More Than 16 Percent

Figures show the lottery's sales increased 11 percent in fiscal year 2004 after a 3.6 percent increase in both FY 2003 and FY 2002.

Iowa Lottery profits for state programs rose more than 16 percent in its latest fiscal year, an increase of millions of dollars over the previous year's results.

Lottery sales totaled more than \$208.5 million with profits to the state of more than \$55.7 million in fiscal year 2004, which ended June 30. Both figures were up from FY 2003 figures (\$187.8 in sales, \$48 million in profits) and well ahead of the lottery's budget projections.

The figures show the lottery's sales increased 11 percent in fiscal year 2004 after a 3.6 percent increase in both FY 2003 and FY 2002. The lottery's profit increase of more than 16 percent in FY 2004 followed revenues that held steady in FY 2003 and had increased 9 percent in FY 2002.

Instant-scratch tickets, the lottery's traditional sales leader, claimed that spot again in FY 2004, with sales increasing by 12 percent to \$95.3 million. Powerball sales for the year were up more than 14 percent to \$66 million while sales of Hot Lotto, a similar game but with smaller jackpots, increased more than 29 percent to \$7.7 million.

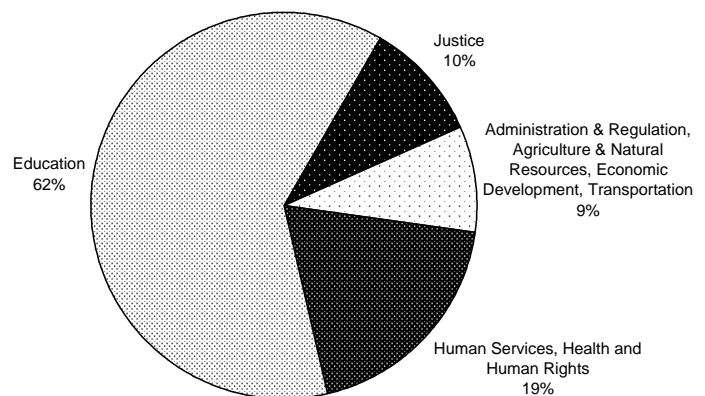
Sales in the lottery's Pick 3 lotto game jumped more than 5 percent for the year to about \$6.3 million and the introduction of the Pick 4 game brought in \$1.7 million in sales.

## Lottery Profits Benefit State General Fund

Iowa Lottery revenues are deposited in the state general fund, where they are used to pay for a variety of programs. Some of the programs that receive money from the general fund include education, natural resources, health and family services and public safety.

Since the lottery's inception, more than \$1.77 billion has been awarded in prizes and nearly \$890 million has been raised for state programs.

General Fund Appropriations (FY 2004)



Source: Iowa Department of Management

# Sales of Iowa Lottery Games in Millions

	Instant	Lotto	Multi-state* (Powerball)	Pull-tabs	\$100,000 Cash Game	Dream Draw	Daily Millions	Cash 4 Life	Pick 3	Freeplay Replay	Rolldown	Hot Lotto	Touch Play	Pick 4
FY '86	\$77.6	\$4.1												
FY '87	\$72.9	\$21.6												
FY '88	\$59.8	\$47.2	\$6.4	\$10.6										
FY '89	\$72.6	\$48.8	\$30.8	\$20.2										
FY '90	\$68.3	\$42.9	\$38.8	\$18.3										
FY '91	\$75.5	\$34.8	\$27.5	\$17.6	\$2.7									
FY '92	\$85.7	\$36.6	\$23.9	\$21.0	\$9.0									
FY '93	\$96.6	\$24.3	\$38.1	\$36.9	\$11.1									
FY '94	\$99.2	\$17.8	\$44.5	\$35.5	\$10.0									
FY '95	\$103.9	\$12.6	\$48.9	\$32.4	\$9.7									
FY '96	\$96.7	\$14.5	\$41.0	\$28.7	\$9.0									
FY '97	\$91.2	\$10.2	\$32.9	\$25.8	\$6.4	\$1.0	\$6.1							
FY '98	\$90.6	\$7.8	\$37.3	\$26.9	\$5.0		\$3.9	\$2.2						
FY '99	\$91.0		\$51.8	\$28.6	\$4.8			\$4.2	\$3.8					
FY '00	\$90.3		\$48.0	\$27.2	\$4.9			\$3.3	\$4.1	\$0.4				
FY '01	\$84.2		\$52.1	\$27.0	\$4.3			\$0.5	\$4.0	\$0.7	\$2.2			
FY '02	\$80.6		\$60.9	\$27.6	\$4.3				\$5.0	\$0.4	\$1.2	\$1.3		
FY '03	\$84.9		\$57.6	\$28.4	\$4.4				\$6.0	\$0.3		\$6.0	\$0.2	
FY '04	\$95.3		\$66.0	\$25.5	\$4.4				\$6.3	\$0.1		\$7.7	\$1.6	\$1.7

\*Lotto America through 1992.

## Iowa Lottery Regional Offices

### Des Moines

2015 Grand Ave., Des Moines, IA 50312-4999 Phone: 515-281-7900

### Cedar Rapids

2345 Blairs Ferry Road NE, Cedar Rapids, IA 52402-1918 Phone: 319-395-9313

### Mason City

2900 Fourth St. SW, Mason City, IA 50401-1531 Phone: 641-424-6011

### Storm Lake

822 Flindt Dr., Storm Lake, IA 50588-3205 Phone: 712-732-6662

### Council Bluffs

Omni Centre Business Park, Suite 8

300 W. Broadway, Council Bluffs, IA 51503-9030 Phone: 712-242-2161



.....

**Iowa Lottery Authority**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Year ended June 30, 2004**

Operating revenues:	
Instant ticket sales	\$ 95,258,080
Pick 3 sales	6,333,801
Powerball sales	65,967,337
Hot Lotto sales	7,717,962
Freeplay Replay sales	77,330
Pick 4 sales	1,662,015
\$100,000 Cash Game sales	4,430,118
Touch Play Machine (Net Receipts)	303,079
Monitor Vending Machine sales	1,257,087
Pull-tab sales	25,528,391
Application fees	18,450
Prize reserve refunds	1,338,053
Other	<u>13,749</u>
Total operating revenues	<u>209,905,452</u>
Operating expenses:	
Prizes:	
Instant ticket	55,231,505
Pick 3	3,723,158
Powerball	31,756,964
Hot Lotto	3,761,399
Freeplay Replay	35,897
Pick 4	899,662
\$100,000 Cash Game	1,907,647
Monitor Vending	945,638
Pull-tab	15,884,332
Promotional	<u>310,761</u>
Total prizes	114,456,963
Retailer compensation	13,303,839
Advertising/publicity	6,115,714
Vendor compensation/network expense	6,549,862
Instant and pull-tab rental and inventory expense	4,948,894
Other operating expenses	<u>9,688,686</u>
Total operating expenses	<u>155,063,958</u>
Operating income	54,841,494
Non-operating revenue:	
Interest income	<u>567,843</u>
Income before transfers	<u>55,409,337</u>
Transfers to other funds:	
State General Fund	55,160,347
Iowa Department of Public Health-Gambling Treatment Fund	<u>631,416</u>
Total transfers to other funds	<u>55,791,763</u>
Change in net assets	(382,426)
Net assets beginning of year	<u>1,776,625</u>
Net assets end of year	<u>\$ 1,394,199</u>



Iowa Lottery Authority  
Statement of Net Assets  
June 30, 2004

**Assets**

Current assets:

Cash	\$ 16,040,362
Restricted assets-cash	663,504
Interest receivable	65,681
Prepaid expense	108,630
Accounts receivable, net	3,123,338
Ticket inventories	1,101,422
Investment in prize annuities	<u>9,353,950</u>
Total current assets	<u>30,456,887</u>

Non-current assets:

Prize reserve	4,234,782
Investment in prize annuities	32,380,859
Capital assets, net	<u>291,168</u>
Total non-current assets	<u>36,906,809</u>

**Total assets** 67,363,696

**Liabilities**

Current liabilities:

On-line prizes payable	3,283,969
Instant prizes payable	172,957
Annuity prizes payable	9,488,450
Sales tax payable	163
Accounts payable	1,197,775
Due to:	
State General Fund	13,730,316
Other state agencies	332,543
Deferred revenue	125,679
Personal services payable	281,364
Compensated absences	<u>471,213</u>
Total current liabilities	<u>29,084,429</u>

Long-term liabilities:

Prize reserve fund	4,234,782
Personal services payable	16,525
Compensated absences	252,902
Long-term annuity prizes payable	<u>32,380,859</u>
Total long-term liabilities	<u>36,885,068</u>

**Total liabilities** 65,969,497

**Net Assets**

Invested in capital assets	291,168
Unrestricted	<u>1,103,031</u>

**Total net assets** \$ 1,394,199





# Iowa Lottery Sales By County

For fiscal year 2004, rounded to the nearest \$100,000

ADAIR	\$ 700,000	JASPER	\$ 2,200,000
ADAMS	200,000	JEFFERSON	900,000
ALLAMAKEE	1,500,000	JOHNSON	5,200,000
APPANOOSE	1,100,000	JONES	1,300,000
AUDUBON	400,000	KEOKUK	400,000
BENTON	1,400,000	KOSSUTH	1,100,000
BLACK HAWK	13,100,000	LEE	2,600,000
BOONE	1,700,000	LINN	16,300,000
BREMER	1,600,000	LOUISA	700,000
BUCHANAN	1,700,000	LUCAS	500,000
BUENA VISTA	1,600,000	LYON	300,000
BUTLER	1,000,000	MADISON	600,000
CALHOUN	400,000	MAHASKA	1,300,000
CARROLL	1,700,000	MARION	1,600,000
CASS	900,000	MARSHALL	3,100,000
CEDAR	800,000	MILLS	800,000
CERRO GORDO	5,300,000	MITCHELL	800,000
CHEROKEE	800,000	MONONA	600,000
CHICKASAW	800,000	MONROE	700,000
CLARKE	600,000	MONTGOMERY	700,000
CLAY	1,600,000	MUSCATINE	3,500,000
CLAYTON	1,600,000	O'BRIEN	800,000
CLINTON	4,900,000	OSCEOLA	200,000
CRAWFORD	1,400,000	PAGE	400,000
DALLAS	2,000,000	PALO ALTO	600,000
DAVIS	300,000	PLYMOUTH	1,300,000
DECATUR	300,000	POCAHONTAS	500,000
DELAWARE	1,100,000	POLK	28,900,000
DES MOINES	2,800,000	POTTAWATTAMIE	7,500,000
DICKINSON	1,700,000	POWESHIEK	1,300,000
DUBUQUE	6,300,000	RINGGOLD	200,000
EMMET	1,000,000	SAC	800,000
FAYETTE	1,500,000	SCOTT	11,900,000
FLOYD	1,600,000	SHELBY	700,000
FRANKLIN	800,000	SIOUX	700,000
FREMONT	1,300,000	STORY	3,200,000
GREENE	500,000	TAMA	900,000
GRUNDY	600,000	TAYLOR	300,000
GUTHRIE	300,000	UNION	1,100,000
HAMILTON	1,700,000	VAN BUREN	300,000
HANCOCK	1,300,000	WAPELLO	4,400,000
HARDIN	1,200,000	WARREN	1,900,000
HARRISON	1,000,000	WASHINGTON	1,300,000
HENRY	1,300,000	WAYNE	300,000
HOWARD	800,000	WEBSTER	4,200,000
HUMBOLDT	900,000	WINNEBAGO	1,000,000
IDA	300,000	WINNESHIEK	1,200,000
IOWA	900,000	WOODBURY	6,300,000
JACKSON	1,600,000	WORTH	700,000
		WRIGHT	1,100,000

